

Six Worst Mistakes to Make with Beneficiary Designations

Beneficiary designations are a critical, though often undervalued, aspect of estate planning. Clients need to understand that a well drafted will or trust is generally insufficient to control the beneficiary of their retirement plan or IRA. Only a properly completed and accepted beneficiary designation can ensure that a client's wishes will be met.

Here are the worst mistakes:

- *Not having any beneficiary designation.* Often the biggest error is not having a beneficiary designation at all. Anyone with a retirement account should have a designation, regardless of the account's value. Of course the importance of the tax planning inherent in a well-drafted designation is proportional to the amount of plan assets. Many clients and attorneys are surprised to learn that plan and IRA documents set forth default beneficiaries. A common default beneficiary is the "estate," which is undesirable because it does not allow payments to be "stretched" over the life of the beneficiary. Other common defaults may effectively disinherit certain family members or otherwise produce results counter to the plan owner's wishes.
- *Not selecting contingent beneficiaries.* To avoid the default provisions, it is important to select alternate beneficiaries in case the primary beneficiary does not survive. The best designations are structured from the outset to account for the death of each beneficiary.

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